



German election: Mrs Merkel and Europe rumble forward

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"Do you ever get the feeling that the only reason we have elections is to find out if the polls were right?"
Robert Orben

Coalition politics sounds messy to anyone schooled in the American or British electoral systems, so Sunday's news that - whilst German Chancellor Angela Merkel and her CDU/CSU party did top the polls but now may face months of negotiations to form a workable majority government - was immediately taken as a negative. Mrs Merkel herself has already observed that she had hoped her party would have done better but, unlike many other incumbent politicians in Western Europe seeking re-election in recent years, she at least emerged from the election with her primacy broadly unimpacted. For those in Germany, Europe and the broader world that look to her for leadership, the better news from yesterday's events is that she will still very much be in control.

However, following yesterday's results, Angela Merkel will be co-ordinating a slightly different set of political allies. Germany has been ruled under a 'grand coalition' during Merkel's last Chancellorship term, but the decision by the country's second largest party - the SPD - not to reform this partnership after their

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own worst national election results since the creation of the party in the years after World War Two, creates Mrs Merkel's first challenge.

The most likely partnership is an unusual combination of the FDP - a pro-business, free market party - and the Greens, in a coalition which has already been dubbed the 'Jamaica' option reflecting the combination of party colours that is akin to the colours in the Caribbean nation's flag. This sounds as if it spans an unworkable range of interests, but the reality that this option has had such an exotic nickname for many weeks indicates it has been an expected political outcome for quite a while. And the budgetary prudence of the FDP along with the clean energy focus of the Greens is mainstream Merkel-led government policy already in any case. Undoubtedly, there are some issues around individual names and specific ministers to sort out, but with all three parties already

co-existing in one of Germany's important regional states, a 'steady as she goes' outcome for the operation of the German government is perfectly plausible.

The SPD's likely decision to become the official opposition as the largest party not in the ruling coalition is also driven by the rise of the AfD, a more nationalistic party that polled the third largest number of votes and will now have representatives in the German Parliament for the first time ever. Even in Germany - the economy which has performed best in the Eurozone in recent years - the region-wide tensions around job security, immigration and a feeling of the 'haves and have-nots' which have influenced a rise in more populist voting across Europe is still apparent. For reasons of history, Germany is likely to be one of the last countries to be impacted materially politically by such a trend, but the political warning for Europe's current political leaders is very clear: inspire electorates via action and driving up hope or risk a bigger backlash away from centrist political norms at the next set of elections.

For Mrs Merkel, such thoughts will especially resonate as she is unlikely to stand for any Chancellorship term and hence is likely to be thinking about her political legacy. Yesterday's election result and likely coalition partners are unlikely to hinder her role as Europe's de facto leader, but it is likely to put her in a more contemplative mood about Germany's role on a pan-European basis. This is likely to include an ever-closer political relationship with new French President Macron and a sharp encouragement of his ongoing reform efforts, as well as agreeing pragmatic and common sense driven decisions on issues such as Brexit and regional fiscal distributions to the still struggling Southern European countries (in exchange for their own economic reforms naturally). The overall aim again will be to impress upon Germany's fellow Euro Area members that the pain of reform can be followed by the pleasure of better and stronger economic growth... but maybe this time with a little more compromise from Europe's largest country.

Typically, the best way to inspire angst-ridden local electorates is to do the simple stuff well: more better paid jobs, efficient internal government, well thought through international trade and diplomatic engagements plus a generalised feeling of hope for the future. For Mrs Merkel - in the autumn of her political career - her legacy setting can be very positive for the broader European economic fraternity and capital markets. Yesterday's result changed none of this. Now all her experience and skills are going to be needed to cajole others across Europe to make sometimes unpopular reforms.

In short: as we were before Sunday's elections. ■

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